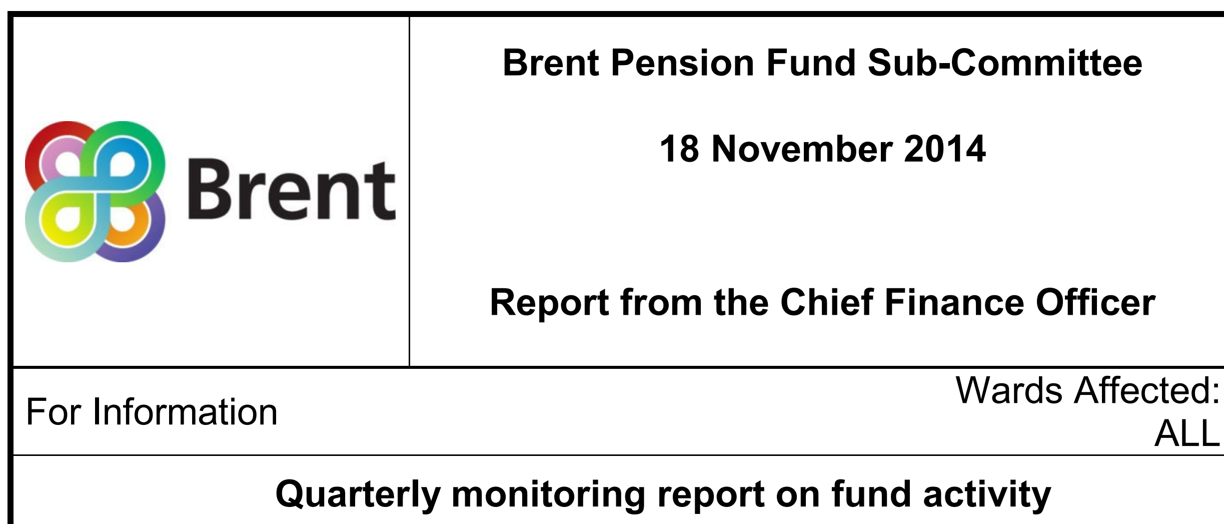


	Brent Pension Fund Sub-Committee 18 November 2014 Report from the Chief Finance Officer
For Information	Wards Affected: ALL
Quarterly monitoring report on fund activity	

1. SUMMARY

1.1 This report provides a summary of the Fund’s activity during the quarter ended 30 September 2014. It examines the actions taken, the economic and market background, and investment performance, as well as commenting on events in the quarter. The main points arising are:

a) The Fund has increased in value by £9.8m from £597.3m to £607.om during the quarter ended 30 September 2014, and the Fund’s return of 1.4% under-performed its quarterly benchmark of 1.7%. During the quarter, Sterling fell by 4.67% against the US dollar. This change in currencies must be taken into consideration given the sizable non-Sterling holdings in the fund, which are not hedged against movements in sterling.

b) Against this backdrop, the biggest fallers were Sterling-dominated assets. The single-largest contributor to this positive return during the quarter was Global Equities, but this 2.9% gain was entirely due to the weakness in Sterling, without which, it too would have registered a loss in local currency terms. In a turbulent quarter for markets, returns can almost exclusively be attributed to currency fluctuations which acted in Brent PF’s favour.

c) Notable positive performers against their benchmark include “Diversified Growth”; in other words, Baillie Gifford.

d) The 12-month return as at 30 September 2014 was 8.6%, marginally higher than the benchmark return of 8.2% again largely due to the foreign exchange translation effects.

e) The Fund return for the 3 years ended 30 September 2014 is an annualised 9.8% p.a., which again lags the benchmarked return of 10.6%.

f) The investment performance of the Brent Pension Fund in comparison to its benchmark for the period ended 30 September 2014 is shown below:

	Total Fund Return	Fund Benchmark Return	Local Authority Average
1 year	8.6 %	8.2%	N/A
3 years	9.8%	10.6%	N/A
5 years	7.4%	7.7%	N/A

2. RECOMMENDATIONS

2.1 Members are asked to note the investment report.

3. DETAIL

Economic and market background – quarter ended 30 September 2014

3.1 Global equities ran into gathering political and economic storm clouds. In Q3, the Ukraine developments turned decisively for the worse, crystallised by the downing of the Malaysia Airlines flight. In a similar vein, the situation in the Middle East continued to deteriorate. Intra-EU political squabbles increased. Current policies appear unlikely to solve the mounting problems of failed economic policies, which serve to entrench and increase austerity fatigue against the backdrop of the widening democratic deficit.

3.1 During the quarter ended 30 September 2014, the UK's FTSE 100 fell by 1.8%. Market gyrations indicated that economic fundamentals were unlikely to provide much support in the medium term, as was evinced by lacklustre earnings.

3.2 In the US, the strong USD weighed on international earnings. Earnings continued to benefit from lower energy prices (shale, international demand shortfall and an supply glut in oil). Jobs “onshoring” is likely to prove a continued boost.

3.3 Government bond markets continued to defy expectations by to performing well. Long duration bonds in particular did well, once again, despite (or maybe because of) almost universal bearish sentiment towards the asset class. The fixed income investments did well, but once again lagged the benchmark as the fund (Henderson) had reduced exposure to longer duration government bonds and therefore did not benefit from the market's strength.

3.4 Data from the Eurozone was mixed, but negative news was largely viewed as a reason for further unconventional policy measures by the ECB, and therefore "bad" news did not dent sentiment.

3.5 Emerging markets had a tough quarter. The asset class is traditionally viewed as a geared play on global monetary conditions. Given that Central Banks are increasingly marching to their own tune ("Policy Divergence"), the turbulence was unsurprising. The only asset class that continued to do well were mega-cap Chinese companies, such as large, politically-controlled banks, which are optically cheap. They have enjoyed a strong rally of late, but remain 60% lower than their 2009 highs.

3.6 A market review for the quarter ended 30 September 2014, written by the Independent Financial Adviser, is attached.

Investment performance of the Fund

3.7 The investment performance of the Brent Pension Fund in comparison to the WM Local Authority percentile average for all Local Government Pension Schemes (LGPS) funds nationally is shown below:

	Period ended 30 Jun 2014	Period ended 30 Sept 14
1 year	86th	63rd
3 years	93rd	95th
5 years	92nd	97th
10 years	98th	100th

3.8 The comparative statistics show that the Fund has been one of the lower performing LGPS funds for a period of many years, but relative performance has picked up of late.

3.9 As the rate of equity markets' vertiginous climb eases, Brent Pension Fund's performance becomes more in line with the Local Authority average performance. The Fund has under-performed over the past few years, largely due to its lower weighting in equities (49% of the fund, compared to the Local Authority average of 63%).

3.10 The second factor pertains to the large allocation (almost 20% of Brent Pension Fund's assets, compared with a Local Authority Average of 5%) to unquoted Private Equity and Infrastructure investments, which continue to remain relatively immature, with many in their investment (rather than payout) phase of development. The values of these investments do not change continuously in the way quoted investments do, so that their recent investment performance may not reflect their true underlying worth. Their real performance can only be assessed when distributions are made to investors in future years as the funds realise their assets. Brent Pension Fund's Private Equity investments are legacy investments,

dating back to 2003, in some cases. The investments are legally binding, and no ready market exists for those who wish to sell prematurely.

3.11 Valuations for unquoted investments take up to six months to collate. This year, any improvement in values is likely to be helped by sterling's recent weakness, given that a large portion of the assets are held in US$.

3.12 Table 1 shows the changes in asset allocation, how asset allocation compares with the benchmark and with the average fund (WM Local Authority average), and how the change in the market value during the quarter is allocated across asset classes. Items marked (*) in columns 4 and 8 cannot be separately analysed, but are included within the relevant asset class.

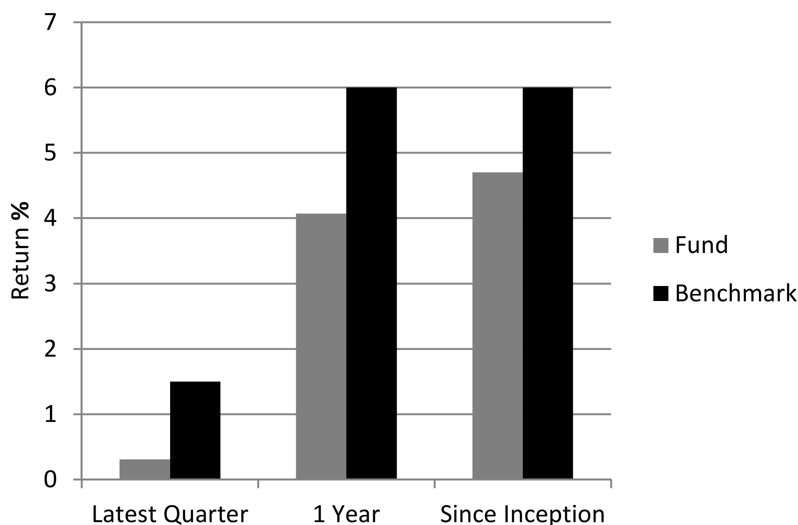
Table 1: Asset allocation as at 30 September 2014 compared to the benchmark

Assets (1)	Market Value 30/6/14 £M (2)	Market Value 30/6/14 % (3)	WM LA Average 30/6/14 % (4)	Fund Benchmark 30/9/14 % (5)	Market Value 30/9/14 £M (6)	Market Value 30/9/14 % (7)
Fixed Income						
Henderson – Total Return Bond Fund	85.2	14.4	16.5	15.0	85.5	14.1
Equities						
UK – Legal & General	87.1	14.7	24.8	15.0	86.3	14.2
UK - Smaller Companies Fund Henderson	26.4	4.4	*	4.0	26.1	4.6
O/seas – developed Legal & General	139.1	23.4	35.4	24.0	144.0	23.7
O/seas – emerging Dimensional	39.8	6.7	6.5	8.0	40.1	6.6
Property						
Aviva	35.3	6.0	7.6	8.0	36.0	5.9
Private Equity						
Capital Dynamics	75.8	12.8	3.8	10.0	78.3	12.8
Yorkshire Fund	1.1	0.2	*		1.1	0.2
Infrastructure						
Alinda	22.9	3.9	1.2	6.0	23.8	3.9
Capital Dynamics	14.3	2.4	*		15.6	2.6
Henderson PFI Fund II	1.3	0.2	*		1.3	0.2
Pooled Multi Asset						
Baillie Gifford DGF	45.9	7.7	1.1	8.0	46.8	7.7
Cash	19.2	3.2	3.1	2.0	23.8	3.9
Total	**593.5**	**100.0**	**100.0**	**100.0**	**607.0**	**100.0**

Manager performance relative to benchmark

3.13 The following bar charts show the active fund manager performances in comparison to their respective benchmarks for periods to the end of September 2014.

Henderson – Total Return Bond Fund

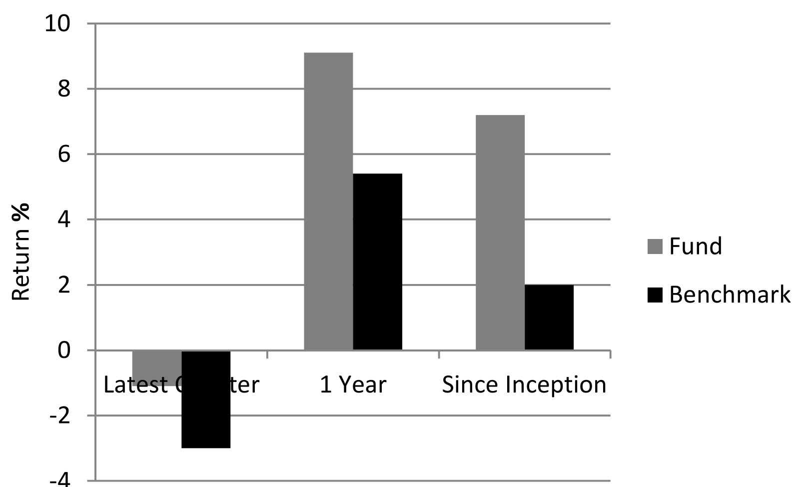


The fund was positioned in line with consensus views. For much of 2014, consensus has followed the prognostications of Central Banks, which in turn tried to give the impression that they were "driven by data" and not (as one might argue) just playing for time and shooting from the hip. The headline macro data was positive; falling unemployment in the West, "green shoots" of a Eurozone recovery; a rebound from soft data in China. Thus most talk in markets was given to how soon rate rises would occur in the UK and the USA, especially given the valid uncertainty over the real level of economic spare capacity in the US. Elsewhere, China would have a "soft landing" and the Eurozone growth would gently accelerate.

This viewpoint led to the fund having a short duration i.e. not exposed to long duration government bonds, which would have fallen hard should the economic data have continued in the same trend. This meant that the fund did not participate in the best pricing action, which occurred in the long end of the bond yield curves, as market optimism waned. Corporate bond prices fell, especially lower rated and "junk" bonds, as markets became increasingly concerned over the outlook for corporate earnings, combined with record issuance.

The fund is positioned for further recovery in the UK (more momentum was lost after their report was written), and for the ECB to maintain an accommodative policy. The fund has fallen further behind its benchmark after being wrong-sided by the direction of the world's major economies. Markets remain difficult, as shown by Central Bankers' constant change in their outlook and positioning.

Henderson – UK & Irish Smaller Companies Fund



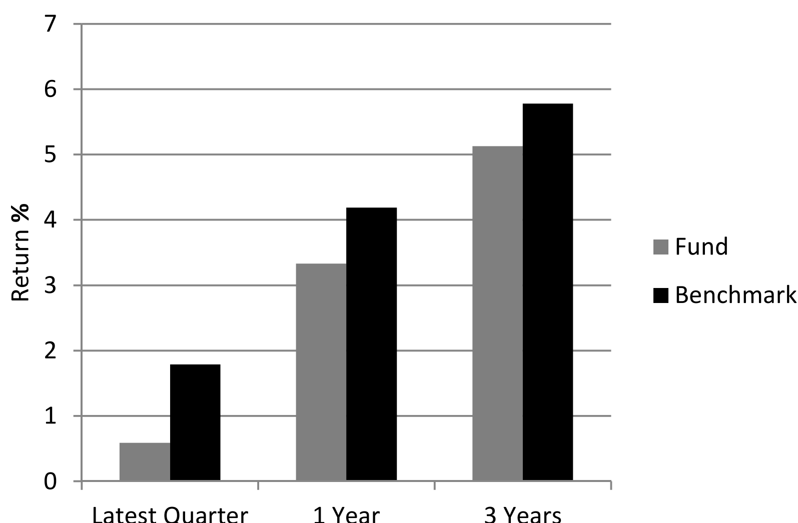
The fund had a good quarter on a relative – but not absolute – basis. The fund manager reported that intra market turbulence was far more elevated than the 3.0% drop in the index would suggest. Aside from the Global political and economic factors which have been discussed, UK Small Caps were also hit by uncertainty over the outcome of the Scottish independence referendum. Also of relevance to the sector was the deceleration in UK manufacturing.

As the liquidity-induced market rally faded, stock dispersion increased. This means that a company's operating fundamentals are once again the key share price drivers. This has a number of implications for the fund manager. Firstly, it makes sense to increase the fund's concentration, as it makes more sense to "ride the winners" and be more ruthless in the Sell discipline with companies over which question marks hang. Markets will no longer tolerate a "wait and see" approach. Secondly, this adjustment in portfolio style throws up other risks and opportunities in terms of trading. Fund outflows and changes in fund manager at several of the larger funds led to substantial lines of stock being offered to the market. In some cases, it made sense to buy these, given the increase in weighting given to select companies in the portfolio and the rare opportunity to acquire lines of stock without driving up the share price (Small Caps are of course less liquid than Large Caps).

It was disappointing that the fund was running a cash weighting going into October that was only in the middle of the range (i.e. 4-5%). However, there was no panic selling at the bottom of the market correction, but more buying, which shows that the process is sound. The fund manger will however continue to run a cash position which is slightly higher than normal, in order to have "dry powder" for opportunistic acquisitions or increases in weight.

Although the fund manager continues to reduce the cyclical nature of companies held in the portfolio, this asset class appears to be vulnerable, if the UK's recovery loses further momentum.

Dimensional – Emerging Markets Value Fund

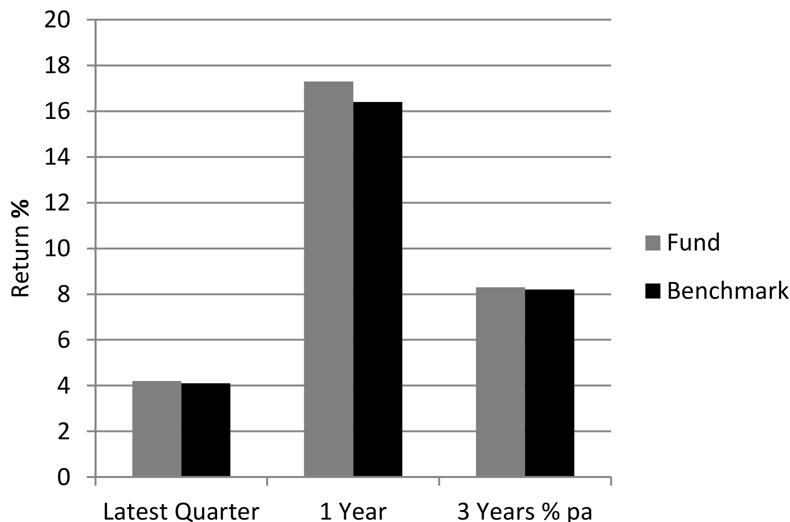


The investment in Dimensional has been a poor performer. Since inception in July 2011 (the midst of the global tremors which emanated from the eurozone crisis), the fund has returned a -4.4% per annum, whilst the MSCI Emerging Markets has fallen by 2.4% per annum. On a 3 year annualised basis, the fund has risen by 5.1% against 5.8% for the index. The damage done in the initial investment still shows: the fund is up by 2.4% against 4.1% for the Index over a five year period.

The issue here is that the fund performed very poorly during period of extreme volatility, such as in 2008 and in 2011. Since the fund was launched in 2006, it has outperformed the index by only 31bps. This index-like performance is not surprising given that the fund has 1,920 holdings, vs 834 in the Index. The fund is nominally active; companies are screened on the basis of existing valuation, without any fundamental research conducted into the companies. The quest for value has thrown the question of whether something is of real value rather than apparent value, into stark relief. Bets on large opaque Chinese banks finally paid off, after years of price de-rating.

The threats to the GEM universe stem from policy divergence, which could be one of several factors that could trigger a US$ rally. Such a rally could lead to a dramatic unwind of US$ “carry trades” into GEM. Some estimate the value of these trades to be in the region of US$ 5 trillion. The Dimensional Fund is poised for a cyclical recovery, which is why the biggest sector bets are in financials and industrial companies. It remains to be seen whether this is akin to catching a falling knife, or is a brave call, which will come right if and when the dark economic clouds looming on the horizon are burnt off.

Aviva – Property



NB The above chart relates to the UK portfolio, which is 85% of Brent PF's allocation to Aviva.

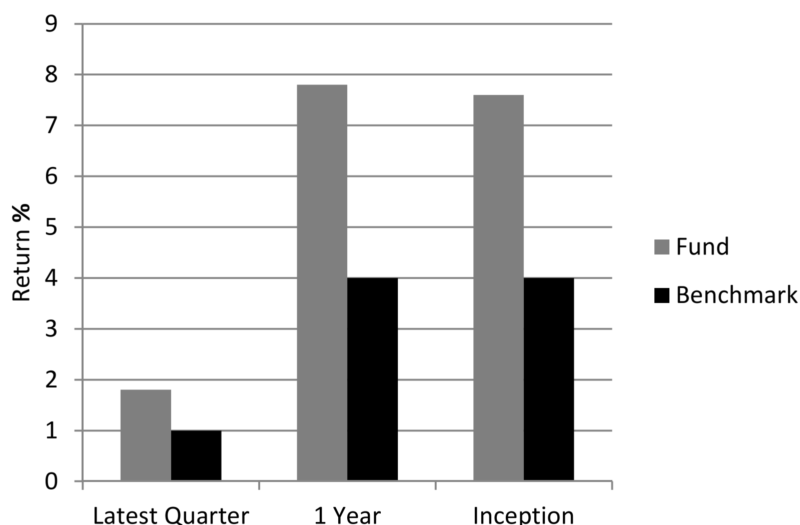
Aviva posted another strong quarter, recording a total return of 4.2%. The fund has also outperformed the benchmark on a one year and three year view. However, attention must be paid to the sources of return. In 3Q14, the fund registered 3.1% capital growth and an income yield of 1.1%. There would be greater confidence in this investment if the ratios were reversed; i.e. the fund's performance was not so reliant on capital growth. It remains to be seen whether the UK property market as a whole, and London in particular, entered a soft patch, or whether the property cycle has matured and could reverse.

However, the make-up of the fund does give some comfort. The fund has a 15% weighting in industrial specialists holdings. The sector's fundamentals remain robust, as the availability of industrial space in the South East of the U.K. is at a 10 year low. This sector's performance has driven the yield compression; it does not appear that rents will keep pace with capital values. Rents increased by 0.8% again in 3Q14. The rate of increase in rents is expected to accelerate as vacancies drop to a level last seen before the GFC.

Interestingly, the fund partially redeemed a holding in the West End of London Property Unit Trust as it is expected that yields on London offices will rise (i.e. prices will fall). Nonetheless, office rents in the City rose again for the third quarter in a row.

The fund manager's hope is that the baton for growth can be passed from capital values to rental growth, as vacancy rates come down. The obvious catalyst for re-pricing to the downside would be a hike in interest rates.

Baillie Gifford – Diversified Growth Pension Fund



Baillie Gifford's Diversified Growth Fund (DGF) has most definitely regained its poise, after a wobble in the "Taper Tantrum" of 2013. The fund returned 1.8% in the last quarter, which compares with the benchmark of 1.0%. The performance of the fund has mostly been consistent, and consistently good – no mean feat given the febrile markets.

The performance of the fund in the last quarter demonstrates the importance of allowing fund mangers to pursue opportunities globally. Tactical positions are not constrained to equities and bonds. For example, the fund was boosted by 0.4% (almost a third of the overall gain) by the short position in the Australian dollar (AUD). The AUD fell by 7.3% on Chinese growth concerns. This position has been patiently held for quite some time (January 2014). Other strongly performing assets include Insurance Linked bonds (also known as "Cat Bonds").

The fund managers have been anticipating the impact of policy divergence. Markets started to reflect this, as well as other factors such as geopolitical risk, in 3Q14. Correlation between and within asset classes fell. This should prove beneficial for fund managers who are ready, willing and able to invest in a tactical manner.

The three largest asset allocations at the end of 3Q14 were listed equities at 17.7% of the fund; structured finance at 14.2% and EM bonds at 12.9%. Further discussion with the managers revealed that they are careful to avoid EM positions which are vulnerable to a US$ rally.

At the end of the quarter, the fund had 9.1% in cash and cash equivalents, which was increased going into October, but was tactically redeployed after markets fell. In conclusion, the DG fund continues to deliver.

3.14 The independent WM Company measures the returns on the Brent Pension Fund. Table 2 sets out returns for the periods to 31 September 2014.

Table 2: Investment Returns in Individual Markets

Investment Category	RETURNS						Benchmark/ Index Description
	Quarter Ending 30/9/14			Year Ended 30/9/14			
	Fund %	Benchmark %	WM Local Auth %	Fund %	Benchmark %	WM Local Auth %	
Fixed Income							
Total Return Bond Fund Henderson	0.3	1.5	0.3	4.1	6.0	4.6	Absolute return 6% p.a.
Equities							
UK – Legal & General	-1.0	-1.0	1.5	6.2	6.1	6.1	FTSE All Share
UK - Small Companies Henderson	-1.3	-2.2	*	9.1	5.4	*	FTSE Small Cap
O/seas – developed Legal & General	3.6	3.6	2.4	12.9	13.0	9.8	FTSE Dev World ex UK
O/seas – emerging Dimensional	0.6	1.8	2.3	3.2	4.2	7.2	MSCI Emerging Markets
Property							
Aviva	3.0	4.0	*	10.5	16.8	*	IPD All Properties Index
Private Equity							
Capital Dynamics	1.5	1.9	*	11.2	7.4	*	Absolute return 8% p.a.
Yorkshire Fund Managers	*	*	*	*	*		Absolute return 8% p.a.
Infrastructure							
Alinda	3.3	1.9	*	15.4	8.0	*	Absolute return 8% p.a.
Capital Dynamics	2.2	1.9	*	9.7	8.0	*	Absolute return 8% p.a.
Henderson PFI Fund II	*	*	*	*	*	*	Absolute return 8% p.a.
Pooled Multi Asset							
Baillie Gifford DGF	1.8	1.0	*	7.7	4.0	*	Base Rate + 3.5% p.a.
Cash	0.1	0.1	*	0.4	0.5	*	Base Rate
Total	**1.4**	**1.7**	**1.8**	**8.6**	**8.2**	**8.5**	

3.15 The Fund's return of 1.4% under-performed its benchmark of 1.7% in 3Q14, but returned 8.6% over one year, beating its benchmark of 8.2%.

Compliance with statutory investment limits

3.17 LGPS investment regulations state that the Administering Authority shall have regard both to the diversification and the suitability of investments. The following table demonstrates full compliance when comparing the Fund's actual investment exposure with the statutory limits under regulation:

Investment	Statutory limit under regulation	Actual exposure at 31 Sept 2014	Compliant Yes / No
Any single holding	10%	3%	Yes
Unit trusts managed by any one body	35%	24%	Yes
Lending to any one borrower	10%	Nil	Yes
Unlisted securities of companies	15%	Nil	Yes
Any single partnership	5%	3%	Yes
Total investment in partnerships	30%	18%	Yes

Outstanding contractual commitments

3.18 The Brent Pension Fund has not entered into any new investments in private equity/infrastructure since November 2011 and whilst significant capital call payments have been made over the past two years, the outstanding contractual commitments on existing investments continue to remain significant as follows:

	31 March 2012 £'000	31 March 2013 £'000	30 Sept 2014 £'000
Capital Dynamics	77,545	54,077	30,404
Alinda	10,435	10,636	3,231
Yorkshire Fund Managers	1,113	266	0
Total	**89,093**	**64,979**	**33,632**

3.19 These outstanding investment commitments mean that the Fund needs to retain a sizeable cash balance to meet capital call payments as they arise. It also prevents the Fund from moving to its strategic allocations in Property and limits the extent to which any new investments can be considered at the present time.

4. FINANCIAL IMPLICATIONS

4.1 These are included within the report.

5. DIVERSITY IMPLICATIONS

5.1 None.

6. STAFFING IMPLICATIONS

6.1 None.

7. LEGAL IMPLICATIONS

7.1 None.

8. BACKGROUND INFORMATION

8.1 Henderson Investors – September 2014 quarter report
Legal & General – September 2014 quarter report
Dimensional Asset Management – September 2014 quarter report
Baillie Gifford – September 2014 quarter report

9. CONTACT OFFICERS

9.1 Persons wishing to discuss the above should contact the Investment and Pensions Section, Governance and Corporate Services, on 020 8937 1472 at Brent Civic Centre.

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QUARTERLY REVIEW PREPARED FOR

Brent Council Pension Fund

Q3 2014

20 October 2014

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BRENT COUNCIL PENSION FUND
Quarterly Review, July – September 2014

The Economy

1. The UK economy continued to grow strongly, recording 0.8% growth in the second quarter, with unemployment falling to below 2 million; average wage growth, however, continues to lag the rate of inflation. Growth in the US was strong in Q2, but much of this growth was due to restocking of inventory. The Eurozone slowed further, with even Germany reporting negative growth, while Japan suffered from the after-effects of the April 1 consumption tax increase.

   (In the table below, bracketed figures show the forecasts at the time of the previous Quarterly Review in July)

Consensus real growth (%)					**Consumer prices latest (%)**
	2012	**2013**	**2014E**	**2015E**	
UK	-0.1	+1.7	+3.1 (+3.1)	+2.7	+1.2 (CPI)
USA	+2.2	+1.9	+2.2 (+2.1)	+3.0	+1.7
Eurozone	-0.5	-0.4	+0.8 (+1.1)	+1.3	**+0.3**
Japan	+1.9	+1.7	+1.0 (+1.5)	+1.2	+3.3
China	+7.8	+7.7	+7.3 (+7.3)	+7.0	+2.0

[Source of estimates: The Economist, October 11th, 2014]

2. In early September the European Central Bank announced a further cut in base rate, from 0.15% to 0.05%, and lowered its negative interest rate on central bank deposits to – 0.2%, in a bid to prevent the Eurozone from slipping into deflation. The ECB also said it would start buying asset-backed securities in October, and buy debt from banks. Meanwhile the Bank of England hinted in August that the weakness in UK wage growth could cause a delay in the first rise in UK base rate into early-2015. The subsequent slowdown in CPI inflation, and the weakness of the European economy, have moved this expectation into the second half of 2015.

3. Geopolitical tensions have increased sharply in several different regions. The shooting-down of passenger airline MH17 over Eastern Ukraine on July 17th has resulted in a tightening of the sanctions imposed by the EU and the US on Russia's financial, energy and defence sectors. The rapid advance of Islamic State forces in Iraq provoked a response from the United States in the form of aerial bombing to protect endangered minorities there, and later extended their operations, with regional allies, to Northern Syria. In late September the UK government agreed to join these actions in Iraq, but not in Syria. In Hong Kong, protesters took to the streets for over a week to demand greater democracy in the election of the Chief Executive of the region.

4. The Scottish Referendum on September 18th resulted in a 55-45% defeat for the independence campaign, but extracted promises of enlarged powers of devolution from Westminster. The French Cabinet was dissolved and re-formed without three left-wingers who had resigned because they disagreed with the country's economic policy.

Markets

5. With the exception of the UK and Europe, **equity** markets gained further ground during the quarter, although Emerging Markets went into sharp retreat in September, losing 5%. The market reversal during October is dealt with in para 13 of this report.

	Capital return (in £, %) to 30.09.14		
Weight %	**Region**	**3 months**	**12 months**
100.0	**FTSE All-World Index**	**+2.6**	**+9.0**
53.1	FTSE All-World North America	+5.5	+16.3
8.0	FTSE All-World Japan	+2.3	-0.9
11.6	FTSE All-World Asia Pacific ex Japan	+1.4	+3.4
16.6	FTSE All-World Europe (ex-UK)	-2.9	+2.0
7.6	FTSE All-World UK	-1.8	+2.2
9.2	FTSE All-World Emerging Markets	+2.0	+3.6

[Source: FTSE All-World Review, September 2014]

6. In the UK equity market, the large-cap stocks – as represented by the FTSE 100 index – continued to keep pace with the mid-and small-cap stocks, so that there is now very little difference in their one-year returns.

(Capital only %, to 30.09.14)	3 months	12 months
FTSE 100	**- 1.8**	**+2.5**
FTSE 250	**-2.2**	**+3.2**
FTSE Small Cap	**-1.4**	**+4.1**
FTSE All-Share	**-1.8**	**+2.6**

[Source: Financial Times]

7. Globally, the Technology and HealthCare sectors have been by far the strongest performers over 3 and 12 months, buoyed up by corporate activity in both areas.

Capital return (in £, %) to 30.09.14		
Industry Group	**3 months**	**12 months**
Technology	+8.5	+25.8
Health Care	+8.8	+22.9
FTSE All-World	**+2.6**	**+9.0**
Utilities	-0.2	+8.8
Industrials	+1.6	+7.3
Consumer Services	+3.3	+6.9
Financials	+3.3	+6.8
Telecommunications	+4.0	+5.3
Oil & Gas	-5.2	+5.0
Consumer Goods	+0.5	+3.1
Basic Materials	-1.8	-0.1

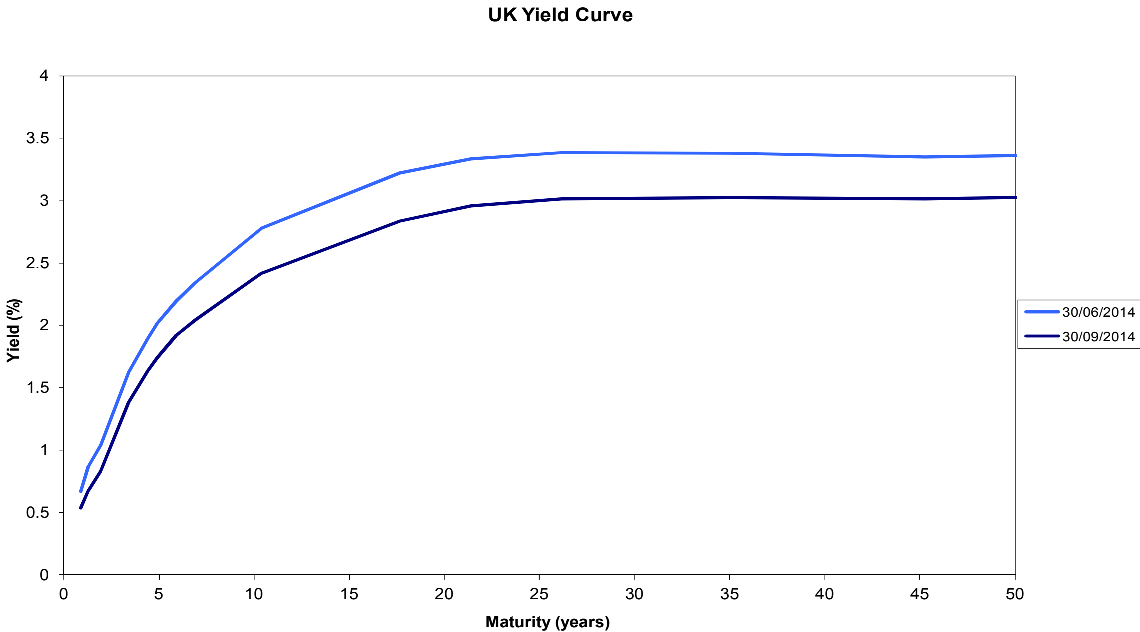
[Source: FTSE All-World Review, September 2014]

8. **Government Bonds** have appreciated, with yields falling on consideration of slower growth and lower levels of inflation, especially in Continental Europe, where 10-year German Bund yields fell below 1%.

10-year government bond yields (%)					
	Dec 11	**Dec 12**	**Dec 2013**	**June 2014**	**Sept 2014**
US	1.88	1.76	3.03	2.52	2.49
UK	1.98	1.85	3.04	2.68	2.43
Germany	1.83	1.32	1.94	1.25	**0.95**
Japan	0.98	0.79	0.74	0.57	0.53

[Source: Financial Times]

9. In the UK, yields at all durations fell significantly during the quarter, as the graph below illustrates.



Currencies

10. The dollar rebounded sharply against all the other major currencies, in part as a 'safe haven' in the face of the military action in Iraq and Syria and the tense relationship with Russia. The pound weakened ahead of the Scottish referendum when it appeared that the independents would win, and then remained weak when the Bank of England discouraged the idea of an early rise in interest rates.

				£ move	
	30.9.13	**30.06.14**	**30.09.14**	**3m**	**12m**
$ per £	1.619	1.710	1.621	- 5.2%	+ 0.1%
€ per £	1.196	1.249	1.283	+ 2.7%	+ 7.3%
Y per £	158.9	173.2	177.8	+ 2.7%	+11.9%

Commodities

11. The most unexpected development was the weakening of the oil price. The risk of interruption to Iraqi oil production would normally have caused a rise in the oil price, but Iraqi oil continued to flow, and supplies from US and Libya increased. Saudi Arabia also appears reluctant to curb supply in order to maintain prices. The price of Brent crude fell 16% during the quarter, and by a further 9% in the first three weeks of October.

Property

12. The UK Property market maintained its recent rapid rate of growth, with a total return of 4.7% in the third quarter. The IPD UK Monthly Property Index to end-September 2014 shows 12-month total returns of :

All Property	**+19.7%**
Retail	**+ 14.5%**
Office	**+ 25.2%**
Industrial	**+ 24.8%**

Markets since end-September

13. The first three weeks of October have seen greatly increased volatility in equity and bond markets, in contrast to the relative calm since the start of the year. The release of data showing a slowdown in the rate of Chinese growth, and the spectre of recession in the Eurozone, mixed with concerns over the possible spread of the ebola virus to Europe and the US, have combined to create nervousness among equity investors. The moves in the major **equity** markets in the period September 30 – October 17 have been (in local currency):

UK	**All-Share**	**- 4.7%**
US	**Dow Jones**	**- 3.9%**
	S&P 500	**- 4.3%**
France	**CAC 40**	**- 8.7%**
Germany	**DAX**	**- 6.6%**
Japan	**Nikkei**	**-10.1%**

Meanwhile **government bonds** in the four major markets have strengthened, as investors look for security, and as low levels of inflation make the yields obtainable look attractive in real terms. The changes in 10-year yields from those shown in the table in paragraph 8 have been:

US	**- 0.28%**
UK	**- 0.23%**
Germany	**- 0.09%**
Japan	**- 0.05%**

Oil has continued to become cheaper, having fallen by 9% so far in October.

Outlook

14. Equity markets have experienced their first bout of nerves this year, and as is normally the case, there is no single cause for the change of sentiment. The ending of Quantitative Easing by the US Federal Reserve at the end of October has been flagged well in advance, but this has acted as a reminder that one of the safety nets is being removed, and that the US economy may slow down as a result. A sharp fall in the price of oil would usually be welcomed by equity markets, as lowering the cost of a key input, but instead its weakness is seen as a symptom of slowing industrial activity globally. I do not regard recent equity market weakness as the start of a prolonged downturn, but markets may well fall further before regaining their equilibrium.

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[All graphs supplied by Legal & General Investment Management]